uMngeni Municipality

Annual Financial Statements
for the year ended June 30, 2016

General Information

Legal form of entity	UMNGENI LOCAL MUNICIPALITY
Mayoral committee	
Mayor	Mrs MP Myeni
Councillors	Cllr TP Mchunu
	Cllr SR Majozi
	Cllr PA Passmoor
	Cllr STJ Ndlovu
	Cllr MJ Gruenberg
	Cllr SK Pillay
	Cllr GT Dlamini
	Cllr SD Nkuna
	Cllr JE Holmes
	Cllr TG Nxele
	Cllr NN Mlotshwa
	Cllr BA Zuma
	Cllr HP Ndlela
	Cllr TA Duggan
	Cllr FT Cele
	Cllr CRW Millar
	Cllr NJ Lewis
	Cllr FG Mthembu
	Cllr JM Zondi
	Cllr LP Phikwane
	Cllr JA Mkhasibe
	Cllr SM Ndlovu
Grading of local authority	3
Acting Accounting Officer	Mrs CG Gumbi-Masilela
Chief Finance Officer	Mr SZ Gwala
Registered office	Corner Dicks and Somme Streets Howick 3290
Postal address	P O Box 5 Howick 3290
Banker	ABSA Bank
Auditor	Auditor General

Index

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are:

Bi weekly meetings in the form of the Interim Finance Committee, to plan and approve only essential expenditure for the forthcoming weeks and to ensure that the unspent conditional grants are moving to a position of being cash backed.
Two other committees have also being formed after Provincial Treasury provided support to help the Municipality recover from the cash flow challenges it faces. The Credit control and Valuation sub-committees meet monthly to tackle revenue enhancement issues by addressing the issue of outstanding debtors and valuation queries respectively. These committees have already achieved success by requesting all stakeholders involved in revenue enhancement to account monthly and provide direction on how to maximise revenue and reduce the outstanding debtors.

Council and the Interim Finance committee is committed to turning the situation around and has frozen all vacant posts in order to curb expenditure, except critical posts or those funded by the conditional grants. There is also an action plan to further reduce expenditure and implement cost-cutting measures to aid financial recovery. Council still has to adopt the plan.

On the technical side, excess electricity losses have been identified and corrective action is being taken to remedy the situation by the Development of Consumer loss Analysis programme (CLA). This programme was specifically written to identify the electricity losses due to technical issues, theft of electricity, illegal connections, and metered installations and correct the electricity billing cycle.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit. The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements..

The annual financial statements set out on pages 5 to 58, which have been prepared on the going concern basis, were approved by the on August 31, 2016 and were signed on its behalf by:

GC Gumbi-Masilela
Acting Municipal Manager

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 58 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 33 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

GC Gumbi-Masilela
Acting Accounitng Officer

Statement of Financial Position as at June 30, 2016

	Note(s)	2016 R	2015 R
Assets			
Current Assets			
Investments	8	33,038,278	38,548,450
Other receivables	10	3,069,381	2,774,926
Receivables from non-exchange transactions	12	10,238,479	8,269,258
VAT receivable	13	6,660,475	5,565,441
Consumer debtors	11	45,655,936	31,353,805
Cash and cash equivalents	14	6,796,232	8,103,231
		105,458,781	**94,615,111**
Non-Current Assets			
Investment property	3	5,056,987	5,123,787
Property, plant and equipment	4	765,379,284	788,876,392
Intangible assets	5	12,337	24,690
Heritage assets	6	5,392,615	5,392,615
		775,841,223	**799,417,484**
Non-Current Assets		775,841,223	799,417,484
Current Assets		105,458,781	94,615,111
Total Assets		**881,300,004**	**894,032,595**
Liabilities			
Current Liabilities			
Annuity loans	17	3,386,736	3,279,327
Operating lease liability		10,340	12,065
Trade and other payables from exchange transactions	21	8,282,914	18,942,766
Consumer deposits	24	2,295,977	2,198,071
Employee benefit obligation	7	1,316,000	1,151,000
Unspent conditional grants and receipts	19	19,766,595	22,223,372
Finance lease obligation	18	965,458	971,769
		36,024,020	**48,778,370**
Non-Current Liabilities			
Annuity loans	17	26,235,723	29,022,019
Finance lease obligation	18	385,760	430,666
Employee benefit obligation	7	25,555,000	24,206,000
Provisions	20	30,094,097	24,742,481
		82,270,580	**78,401,166**
Non-Current Liabilities		82,270,580	78,401,166
Current Liabilities		36,024,020	48,778,370
Total Liabilities		**118,294,600**	**127,179,536**
Assets		881,300,004	894,032,595
Liabilities		(118,294,600)	(127,179,536)
Net Assets		**763,005,404**	**766,853,059**

Statement of Financial Position as at June 30, 2016

	Note(s)	2016 R	2015 R
Net Assets			
Reserves			
Revaluation reserve	15	127,470,628	127,470,628
Statutory reserve 1		15,108,143	15,108,143
Accumulated surplus		620,426,633	624,274,288
		763,005,404	766,853,059
Non-controlling interest		-	-
Total Net Assets		**763,005,404**	**766,853,059**

Statement of Financial Performance

	Note(s)	2016 R	2015 R
Revenue			
Service charges	27	62,487,450	57,767,738
Rental of facilities and equipment		700,857	843,849
Licences and permits		3,206,426	2,655,121
Other income	29	3,703,142	4,900,844
Provisions for bad debt adjustment		-	4,764,421
Interest revenue		5,348,636	4,396,054
Property rates	26	154,859,936	119,499,372
Property rates - penalties imposed and collection charges		7,343,344	6,596,240
Government grants and subsidies	28	71,131,777	102,976,662
Fines, Penalties and Forfeits		9,100,750	21,641,800
Total revenue		**317,882,318**	**326,042,101**
Expenditure			
Employee related costs	32	(87,436,519)	(83,397,332)
Remuneration of councillors	33	(7,236,967)	(6,119,393)
Depreciation and amortisation	36	(42,785,596)	(41,824,544)
Finance costs	37	(3,441,913)	(4,270,635)
Debt Impairment	34	(25,808,170)	(22,032,800)
Collection costs		(885,333)	(721,417)
Repairs and maintenance		(21,867,782)	(12,523,508)
Bulk purchases		(83,791,886)	(72,285,938)
Contracted services		(3,546,787)	(6,152,573)
Grant expenditure		(8,787,772)	(7,162,023)
General expenses	30	(54,604,167)	(43,004,149)
Total expenditure		**(340,192,892)**	**(299,494,312)**
		-	-
Total revenue		317,882,318	326,042,101
Total expenditure		(340,192,892)	(299,494,312)
Operating (deficit) surplus		**(22,310,574)**	**26,547,789**
Operating surplus/deficit		-	-
(Deficit) surplus before taxation		(22,310,574)	26,547,789
Taxation		-	-
(Deficit) surplus for the year		**(22,310,574)**	**26,547,789**

Statement of Changes in Net Assets

	Revaluation reserve	Housing operating account	Total reserves	Accumulated surplus	Total net assets
	R	R	R	R	R
Balance at 01 July 2014	**127,470,628**	**15,108,143**	**142,578,771**	**597,726,499**	**740,305,270**
Changes in net assets					
Deficit for the year restated	-	-	-	26,547,789	26,547,789
Total changes	-	-	-	26,547,789	26,547,789
Balance at 01 July 2015	**127,470,628**	**15,108,143**	**142,578,771**	**642,737,207**	**785,315,978**
Deficit for the year	-	-	-	(22,310,574)	(22,310,574)
	-	-	-	(22,310,574)	(22,310,574)
Balance at June 30, 2016	**127,470,628**	**15,108,143**	**142,578,771**	**620,426,633**	**763,005,404**
Note(s)	15	16			

Cash Flow Statement

	Note(s)	2016 R	2015 R
Cash flows from operating activities			
Receipts			
Sale of goods and services (rates and electricity)		224,690,730	201,370,293
Grants		71,131,777	102,976,662
Interest revenue		5,348,636	4,396,054
Other receipts		7,610,425	10,242,919
Fines		3,945,852	7,056,172
		312,727,420	326,042,100
Payments			
Employee costs		(94,673,486)	(89,516,725)
Suppliers		(189,528,740)	(167,777,625)
Finance costs		(3,441,913)	(3,642,564)
Taxes on surpluses		-	(705,397)
		(287,644,139)	(261,642,311)
Total receipts		312,727,420	326,042,100
Total payments		(287,644,139)	(261,642,311)
Net cash flows from operating activities	40	**(27,454,910)**	**64,836,841**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	23,497,108	(54,135,192)
Purchase of other intangible assets	5	(12,353)	-
(Increase)/decrease in investments		5,510,172	(8,750,458)
Net cash flows from investing activities		**28,994,927**	**(62,885,650)**
Cash flows from financing activities			
Decrease in borrowings		(2,893,705)	(2,559,664)
Movement in other liability 1		-	(33,453)
Movement in consumer deposits		97,906	(78,725)
Increase in finance lease liability		(51,217)	148,063
Net cash flows from financing activities		**(2,847,016)**	**(2,523,779)**
Net increase/(decrease) in cash and cash equivalents		**(1,306,999)**	**(572,588)**
Cash and cash equivalents at the beginning of the year		8,103,231	8,675,819
Cash and cash equivalents at the end of the year	14	**6,796,232**	**8,103,231**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges- electricity	73,410,042	3,188,271	**76,598,313**	62,487,450	**(14,110,863)**	
Rental of facilities and equipment	675,021	(1,998)	**673,023**	700,857	**27,834**	
Interest received (outstanding debtors)	1,838,496	-	**1,838,496**	-	**(1,838,496)**	
Licences and permits	2,425,491	800,999	**3,226,490**	3,206,426	**(20,064)**	
Other income	9,169,458	(1,572,362)	**7,597,096**	3,703,142	**(3,893,954)**	
Interest received - investment	1,512,612	1,981,461	**3,494,073**	5,348,636	**1,854,563**	
Total revenue from exchange transactions	**89,031,120**	**4,396,371**	**93,427,491**	**75,446,511**	**(17,980,980)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	141,136,471	2,833,206	**143,969,677**	154,859,936	**10,890,259**	
Property rates - penalties imposed	6,242,663	(6,242,663)	**-**	7,343,344	**7,343,344**	
Transfer revenue						
Government grants & subsidies	51,426,000	(51,426,000)	**-**	71,131,777	**71,131,777**	
Transfers recognised - trading	30,371,635	(7,936,449)	**22,435,186**	9,100,750	**(13,334,436)**	
Total revenue from non-exchange transactions	**229,176,769**	**(62,771,906)**	**166,404,863**	**242,435,807**	**76,030,944**	
'Total revenue from exchange transactions'	89,031,120	4,396,371	**93,427,491**	75,446,511	**(17,980,980)**	
'Total revenue from non-exchange transactions'	229,176,769	(62,771,906)	**166,404,863**	242,435,807	**76,030,944**	
Total revenue	**318,207,889**	**(58,375,535)**	**259,832,354**	**317,882,318**	**58,049,964**	
Expenditure						
Personnel	(103,729,103)	11,905,580	**(91,823,523)**	(87,436,519)	**4,387,004**	
Remuneration of councillors	(6,726,468)	(365,352)	**(7,091,820)**	(7,236,967)	**(145,147)**	
Depreciation and impairment	(11,232,365)	-	**(11,232,365)**	(42,785,596)	**(31,553,231)**	
Finance costs	(4,759,799)	-	**(4,759,799)**	(3,441,913)	**1,317,886**	
Bad debts written off	(21,461,953)	(638,000)	**(22,099,953)**	(25,808,170)	**(3,708,217)**	
Collection costs	-	-	**-**	(885,333)	**(885,333)**	
Repairs and maintenance	(24,740,922)	(1,361,718)	**(26,102,640)**	(21,867,782)	**4,234,858**	
Bulk purchases	(80,432,271)	(6,358,575)	**(86,790,846)**	(83,791,886)	**2,998,960**	
Contracted Services	(10,249,430)	(3,367,965)	**(13,617,395)**	(3,546,787)	**10,070,608**	
Other expenditure	-	-	**-**	(8,787,772)	**(8,787,772)**	
Grant and subsidies	7,110,000	-	**7,110,000**	-	**(7,110,000)**	
Sale of goods/Inventory	-	-	**-**	-	**-**	
General Expenses	(71,481,122)	12,550,402	**(58,930,720)**	(54,604,167)	**4,326,553**	
Total expenditure	**(327,703,433)**	**12,364,372**	**(315,339,061)**	**(340,192,892)**	**(24,853,831)**	
	(9,495,544)	(46,011,163)	**(55,506,707)**	(22,310,574)	**33,196,133**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
	-	-	-	-	-	
Deficit before taxation	**(9,495,544)**	**(46,011,163)**	**(55,506,707)**	**(22,310,574)**	**33,196,133**	
Surplus before taxation	(9,495,544)	(46,011,163)	**(55,506,707)**	(22,310,574)	**33,196,133**	
Taxation	-	-	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(9,495,544)**	**(46,011,163)**	**(55,506,707)**	**(22,310,574)**	**33,196,133**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, at weighted average percentage of 15% based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Consumer debtors are expected to be realised within 12 months after the reporting date.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norms. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The appointed actuary determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the appointed actuary considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land that is measured at revalued amount which is the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Accounting Policies

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Accounting Policies

1.4 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Accounting Policies

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Accounting Policies

1.6 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	x years

1.7 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired.

The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Consumer debtors

Consumer debtors are initially recognised at fair value, and are subsequently measured at amortised cost.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Accounting Policies

1.7 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are initially recorded at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Long term loans

Long term loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
- has transferred substantially all the risks and rewards of the asset, or
- has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

1.8 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets and non-cash generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

1.10 Impairment of cash-generating assets and non-cash generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

Other post retirement obligations

The municipality provides post-retirement health care benefits and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Accounting Policies

1.12 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating Surplus.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and value-added taxes (VAT).

1.13 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service charges for electricity are based on consumption by consumers as is recorded on each consumer's meter.

Meters are read each month and the revenue is recognised in the period in which invoices are raised.

Provisional estimates of consumption are made in periods where meter readings have not been able to be carried out. The revenue from these provisional readings is also recognised as revenue when invoiced.

Adjustments to provisional estimates and recognition of the amended revenue arising as a result, are made in the invoicing period in which meters are read.

Revenue from the sale of electricity prepaid meter cards is recognised immediately in revenue.

Service charges for refuse removal are raised and recognised on a monthly basis in arrears.

Refuse charges are based on the application of the approved tariff to each property that has improvements, the category of property usage and the number of refuse containers on each property regardless of whether or not containers are emptied during the month.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service has been rendered and the fee has been charged or licenses and permits have been issued.

Income from agency services is recognised on a monthly basis once the income collected from agents has been quantified and the terms of the agency agreement have been complied with.

Interest

Interest is recognised in surplus or deficit using the effective interest rate method.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another institution/ individual without directly giving approximately equal value in exchange.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.
When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue. at the fair value of the consideration received or receivable, net of trade discounts and volume rebates and value-added taxes (VAT).

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Penalty interest is raised on unpaid rates after the due date for payment and is recognised on a time proportion basis.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Accounting Policies

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 25: Employee benefits

1.22 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

Accounting Policies

1.23 Budget information (continued)

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2013 to 6/30/2014.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

1.24 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund.

Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.25 Related parties

The municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the entity any one or more related parties, and those transactions were not within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the reporting entity’s legal mandate;

1.26 Work in progress

The cost of items of property, plant and equipment that under construction as of the reporting date is recognised as an asset if:

- it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
- the cost or fair value of the item(s) can be measured reliably.

Assets under construction consist of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. The expenditure comprises direct labour, materials and overheads, if appropriate.

When assets under construction are completed and certificates of completion issued, they are transferred to the appropriate asset class.

Assets under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in the manner intended by management.

Notes to the Annual Financial Statements

	2016	2015
	R	R

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 01, 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	April 01, 2017	
• GRAP 20: Related parties	April 01, 2017	
• GRAP 32: Service Concession Arrangements: Grantor	April 01, 2016	
• GRAP 108: Statutory Receivables	April 01, 2016	
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	April 01, 2016	
• GRAP 16 (as amended 2015): Investment Property	April 01, 2016	
• GRAP 17 (as amended 2015): Property, Plant and Equipment	April 01, 2016	
• GRAP 109: Accounting by Principals and Agents	April 01, 2017	
• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	April 01, 2017	
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	April 01, 2017	
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	April 01, 2018	

Notes to the Annual Financial Statements

	2016 R	2015 R

3. Investment property

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	6,122,000	(1,065,013)	5,056,987	6,122,000	(998,213)	5,123,787

Reconciliation of investment property - 2016

	Opening balance	Additions	Depreciation	Total
Investment property	5,123,787	598,946	(266,436)	5,056,987

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Depreciation	Total
Investment property	5,523,051	(199,632)	(199,632)	5,123,787

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers	Depreciation	Impairment	Total
Land	125,248,081	-	-	-	(621,733)	124,626,348
Buildings	51,527,134	-	3,811,254	(3,515,003)	-	51,823,385
Machinery and equipment	862,864	927,499	-	(232,442)	-	1,557,921
Furniture and office equipment	1,573,124	1,130,898	-	(379,096)	-	2,324,926
Motor vehicles	5,414,015	771,699	-	(822,631)	-	5,363,083
Motor vehicles - leased	1,092,130	-	-	(535,081)	-	557,049
Computer equipment	1,310,574	571,620	-	(398,076)	-	1,484,118
Electricity	51,778,930	-	-	(2,779,595)	-	48,999,335
Assets under construction	52,727,936	15,607,983	(6,573,277)	-	-	61,762,642
Roads and Storm water network	497,341,604	-	2,762,023	(33,223,150)	-	466,880,477
	788,876,392	**19,009,699**	**-**	**(41,885,074)**	**(621,733)**	**765,379,284**

Reconciliation of property, plant and equipment - 2015

	Opening balance Restated	Difference	Additions Restated	Transfers	Other changes, movements	Depreciation restated	Impairment loss	Total
Land	125,869,815	-	-	-	-	-	(621,733)	125,248,082
Buildings	55,008,254	-	-	-	-	(3,481,120)	-	51,527,134
Machinery and equipment	907,826	-	271,415	-	-	(316,378)	-	862,863
Furniture and office equipment	1,029,606	-	166,405	-	830,556	(453,443)	-	1,573,124
Motor vehicles	5,524,055	-	878,080	-	-	(988,120)	-	5,414,015
Motor vehicles - leased	2,267,114	-	-	-	-	(1,174,984)	-	1,092,130
Computer equipment	1,066,349	-	644,743	-	30,659	(431,176)	-	1,310,575
Electrical	54,672,816	-	-	-	-	(2,893,887)	-	51,778,929
Assets under construction	34,050,665	-	52,174,549	(33,497,278)	-	-	-	52,727,936
Roads and storm water network	494,997,985	**(891,293,318)**	-	924,790,596	-	(31,153,659)	-	497,341,604
	775,394,485	**(891,293,318)**	**54,135,192**	**891,293,318**	**861,215**	**(40,892,767)**	**(621,733)**	**788,876,392**

Notes to the Annual Financial Statements

	2016 R	2015 R

4. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

	2016	2015
Motor vehicles	2,907,516	1,371,096
IT equipment	1,092,130	1,092,130
	3,999,646	**2,463,226**

The municipality transferred clinic operations and staff to the Department of Health in the 2012/13 financial year.

The municipality is in the process of donating clinic assets recorded in the fixed asset register to the Department of Health. As at the 2013/14 financial year the clinic assets remain in the control of the municipality and as thus appear on the asset register.

5. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	334,156	(321,819)	12,337	334,156	(309,466)	24,690

Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software	24,690	(12,353)	12,337

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software	135,102	(110,412)	24,690

6. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets which fair values cannot be reliably measured: (Para .94)						
Museums	5,392,615	-	5,392,615	5,392,615	-	5,392,615

Reconciliation of heritage assets 2016

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Museum	5,392,615	5,392,615

6. Heritage assets (continued)

Reconciliation of heritage assets 2015

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Museums	5,392,615	5,392,615

Heritage assets which fair values cannot be reliably measured

Historical sites

The following heritage asset(s) cannot be reliably measured: Other [Give a description of the heritage asset of class of heritage assets]. Fair value cannot be determined reliably due to [Give an explanation]. The range of estimates within which fair value is highly likely to lie is R-and R-.

The entity has disposed of... [Give a description of the heritage asset of class of heritage assets] on and a gain/loss of R- was recognised as a result. The carrying amount at the date of disposal was R-.

Transitional provisions

Heritage assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 2 of the GRAP Reporting Framework, as disclosed in note , certain heritage asset with a carrying value of R - (2015: R -) was recognised at provisional amounts. Carrying amounts of heritage asset carried at provisional amounts are as follows:

Due to initial adoption of GRAP 103

Steps taken to establish the values of heritage asset recognised at provisional amounts due to the initial adoption of GRAP 103, is as follows:

[Describe the steps and progress made to date]

Provisional amounts retrospectively adjusted during the year, are as follows (refer to note for effect on the annual financial statements:

The date at which full compliance with GRAP 103 is expected, is .

	2016 R	2015 R

7. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The Council operates a defined medical aid benefit scheme for the benefit of its permanent employees.
Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid contribution after retirement.

The post-retirement medical aid subsidy for qualifying employees is 60% of the applicable medical aid.
The post-retirement medical aid for qualifying pensioners is 60% or 67% of the total monthly contribution to the applicable medical aid. Widow(er)s and orphans of eligible in-service members are not entitled to receive a subsidy on and after the death in-service of an employee.

The most recent actuarial valuation was performed on 30 June 2016 by ZAQEN Actuaries (Pty) Ltd (trading as ZAQ Consultants and Actuaries) using the Projected Unit Credit Funding Method.

The full liability has been recognised as at the date of the statement of financial postion. The liability as at the reporting date is R 21 586 000

Long service award

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service and a retirement gift determined by reference to length of service. The most recent actuarial valuation was performed on 30 June 2016 by ZAQEN Actuaries (Pty) Ltd (trading as ZAQ Consultants and Actuaries) using the Projected Unit Credit Method.

The full liability has been recognised as at the date of the statement of financial postion. The liability as at the reporting date is R 5 285 000

Net expense recognised in the statement of financial performance

	2016	2015
Present value of the defined benefit obligation unfunded	(25,357,000)	(22,944,000)
Present value of the defined obligation - partly or partly funded	(1,457,000)	(1,317,000)
Fair value of reimbursement rights	(2,330,000)	(2,020,000)
Benefit payment	1,162,000	1,252,000
Assets not recognised	1,111,000	(328,000)
	(26,871,000)	**(25,357,000)**

Net expense recognised in the statement of financial performance

	2016	2015
Current service cost	1,457,000	1,317,000
Interest Cost	2,330,000	2,020,000
Actual Gain and Loss	1,162,000	328,000
	4,949,000	**3,665,000**

Key assumptions used

Assumptions used at the reporting date:

	2016	2015
Discount rates used	8.94 %	8.94 %
Expected rate of return on assets	8.05 %	8.05 %
Expected increase in salaries	0.82 %	0.82 %
Expected pension increases	7.05 %	7.05 %

	2016 R	2015 R

7. Employee benefit obligations (continued)

Defined contribution plan

Post retirement pension plan- Natal Joint Municipal Pension Fund

The Municipality's personnel are members of one of the Natal Joint Municipal Pension (NJMPF) retirement funds, namely the Superannuation, Retirement and Provident Funds. As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined.

Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to users of the Municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans.

An independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The 2014 interim valuations have not yet been released.

8. Investments

	2016 R	2015 R
Unlisted investments		
Collateral security fixed deposits - Rand Merchant Bank	1,435,356	1,340,941
Notice deposits - Absa Bank	11,160,436	10,304,930
Fixed Deposit - Absa	149,567	5,069,467
Fixed Deposit - FNB	1,581,526	1,470,896
Call Account - FNB	7,141,686	-
Notice Deposit - Investec	11,569,706	20,362,216
	33,038,277	**38,548,450**

	2016	2015
Average rate of return on investments	6%	6%
Investments pledged as collateral security for loans	1,435,356	1,340,941

Midlands Development Agency

The municipality is part of the Development agency established between uMngeni Municipality, Mpofana and uMtshezi Municipalities. For the period under review, the development agency was still in the process of appointing a Board to run the affairs of the Agency. The Agency is funded by the IDC and a bank account is held in the name of uMngeni Municipality, until the Board is appointed to take control of the affairs of the agency.

The bank balance was R 7 362 164.03 as at 30 June 2016 held at ABSA Bank Ltd.

Fair value of financial instrument approximates the cost of the financial asset.

9. Inventories

I

10. Other receivables

	2016 R	2015 R
Interest receivable	11,321	11,321
Other receivables	3,058,060	2,763,605
	3,069,381	**2,774,926**

Notes to the Annual Financial Statements

	2016 R	2015 R

11. Consumer Debtors

Consumer debtors	81,745,572	58,927,542
Less: Provision for bad debts	(36,089,636)	(27,573,737)
	45,655,936	**31,353,805**

Management have considered the effects of any impairment in the values of outstanding debtors and the value of the provision for bad debts.

The provision is adequate to account for any material losses expected to arise from any adjustment that are required to be made to the outstanding balance.

Gross amounts		
Rates	61,987,704	35,642,106
Electricity	15,871,509	17,556,595
Refuse	2,257,729	2,441,691
Legal costs	15,646	33,554
Housing rental	432,824	519,525
Sundry debtors	1,180,159	2,734,073
	81,745,571	**58,927,544**

Less: Provision for bad debts		
Rates	31,113,935	18,540,593
Electricity	3,449,748	6,419,574
Rental	767,461	228,692
Refuse	143,721	944,113
Sundry debtors	606,166	1,422,312
Legal	8,605	18,454
	36,089,636	**27,573,738**

Net balance		
Rates	30,873,769	17,101,513
Electricity	12,421,761	11,137,021
Rentals	289,102	290,833
Refuse	1,490,268	1,497,578
Legal costs	7,041	15,099
Sundry debtors	573,994	1,311,761
	45,655,935	**31,353,805**

Age analysis		
Rates		
Current (0 to 30 days)	-	3,233,394
31 to 60 days	4,224,992	3,918,783
61 to 90 days	11,661,759	1,548,709
91 to 120 days	3,302,168	3,428,193
121 to 150 days	-	2,376,252
151 days and over	51,589,129	21,136,774
	70,778,048	**35,642,105**

Electricity		
Current (0 to 30 days)	4,868,786	4,196,067
31 to 60 days	1,527,666	1,275,703
61 to 90 days	3,938,642	402,959
91 to 120 days	744,306	257,117

Notes to the Annual Financial Statements

	2016 R	2015 R
21 days to 150 days	-	10,779
151 days and over	4,792,109	11,403,969
	15,871,509	**17,546,594**
Refuse		
Current (0 to 30 days)	495,092	453,152
31 to 60 days	218,214	165,504
61 to 90 days	152,568	96,831
91 days to 120 days	83,776	79,297
151 days and over	1,308,079	3
	2,257,729	**794,787**
Sundries		
Current (0 to 30 days)	12,755	29,362
31 to 60 days	3,114	57,663
61 to 90 days	83,771	52,224
91 to 120 days	2,743	50,699
151 days and over	1,077,776	2,544,124
	1,180,159	**2,734,072**
Legal costs		
151 days and over	15,646	33,554
Housing		
Current (0 to 30 days)	53,914	51,187
31 to 60 days	46,936	32,516
61 to 90 days	81,948	17,983
91 to 120 days	24,342	9,867
121 to 150 days	-	9,000
151 days and over	225,684	398,971
	432,824	**519,524**
Reconciliation of doubtful debt provision		
Opening balance	27,573,737	32,338,159
Contribition made during the year	8,515,899	(4,764,421)
	36,089,636	**27,573,738**

Indigent customers

The indigent debtors receive 100kwh of free electricity per month provided that they have a prepaid meter installed in their home. Properties with a valuation up to a maximum of R200,000, are also exempt from paying refuse charges.

Consumer debtors impaired

As of 30 June 2016, consumer debtors of R 36 089 636 ,(2015: R 27 573 737) were impaired and provided for.

The aging of these debtors is as follows:

3-6 months	36,089,636	27,573,737

The municipality profiled all debtors according to their risk profile. This risk profile was then used to calculate the doubtful debt provision.

Notes to the Annual Financial Statements

	2016 R	2015 R

12. Receivables from non-exchange transactions

Debtors- traffic fines (net)	10,238,479	8,269,258

Reconciliation of receivables from non-exchange transactions

Opening balance	8,269,258	3,821,177
Debtors - traffic fines	6,017,723	15,327,748
Debt impairement	(4,048,502)	(10,879,667)
	10,238,479	**8,269,258**

The Municipality has two traffic fine billing systems. TMT (outsourced serviced provider) is responsible for the system used to issue fines for speed traffic offenders along the N3 toll road within the municipal boundary. TRAFMAN is a system used by the municipality to issue fines for other traffic offences. Both TMT and the municipality work closely with the magistrates court to ensure that accurate recording of the status of fines (including the statuses of summons, appeals,fine reducions etc). Monies collected by the Magistrate are transferred to the municiaplity's bank account.

13. VAT receivable

VAT	6,660,475	5,565,441

14. Cash and cash equivalents

Cash and cash equivalents consist of: Absa bank limited - 4063796636 : Bank statement balance at year end (primary) R 7 362 164, first National Bank Limited - Account no: 52530028614

Cash on hand	2,210	2,210
Bank balances	6,794,022	8,101,021
	6,796,232	**8,103,231**

The Municipality has the following bank accounts:

15. Revaluation reserve

Opening balance	127,470,628	127,470,628

The revaluation reserve has resulted from the revaluation of property, plant and equipment.

16. Housing operating account

17. Annuity loans

Designated at fair value		
External Loan - DBSA Account number - 61003296	6,921,512	7,399,521
External Loan - DBSA Account number - 61000591	1,798,412	2,049,468
External Loan - DBSA Account number - 61000576	12,902,535	13,519,021
External Loan - ABSA Account number - 302200978	7,999,999	9,333,333
	29,622,458	**32,301,343**

The loans attract interest at rates between 5% to 12.62% per annum and are being redeemed in monthly and quarterly instalments.

Notes to the Annual Financial Statements

	2016 R	2015 R

17. Annuity loans (continued)

The annuity loans were acquired for the contruction of infrastructure. Construction was completed in 2009 and the municipality is currently redeeming the amount borrowed.

	2016 R	2015 R
Non-current liabilities		
At amortised cost	26,235,723	29,022,019
Current liabilities		
At amortised cost	3,386,736	3,279,327

18. Finance lease obligation

	2016 R	2015 R
Non-current liabilities	385,760	430,666
Current liabilities	965,458	971,769
	1,351,218	**1,402,435**

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 4-5 years.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

In the prior year the finance lease liability was disclosed under other financial liabilities, it has been reclassified in the current year.

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2016 R	2015 R
Unspent conditional grants and receipts		
Data cleansing grant	-	24,851
Expanded Public Works Programme grant	-	28,429
Provincial - Cedara College/ Khanya Village Road	536,449	1,256,245
Mandela capture site phase 2	10,058,933	19,926,867
MAP Synergistic Partnership	347,941	354,489
Cleanest town award	-	755
Integrated National Electricity Programme Grant	2,291,332	6,616
Museum Grant	-	490,005
Massification grant	135,115	135,115
MIG	6,396,825	-
	19,766,595	**22,223,372**

Movement during the year

	2016 R	2015 R
Balance at the beginning of the year	22,223,372	17,831,033
Movement during the year	(2,456,777)	4,392,339
	19,766,595	**22,223,372**

See note 28 for reconciliation of grants from other spheres of government.

Notes to the Annual Financial Statements

	2016 R	2015 R

20. Provisions

Reconciliation of provisions - 2016

	Opening balance	Interest wind down	Closing balance
Environmental rehabilitation	18,116,688	4,413,659	22,530,347
Provision for leave	6,625,793	937,957	7,563,750
	24,742,481	**5,351,616**	**30,094,097**

Reconciliation of provisions - 2015

	Opening balance	Utilised during the year	Closing balance
Environmental rehabilitation	16,556,056	1,560,632	18,116,688
Provision for leave	6,139,909	485,884	6,625,793
	22,695,965	**2,046,516**	**24,742,481**

The landfill site provision is raised for the rehabilitation of the refuse disposal site to its original state once the site has reached the end of its useful life.

21. Trade and other payables from exchange transactions

	2016 R	2015 R
Trade payables	-	973,412
Unclaimed deposits	1,702,453	1,702,965
Accrued expense - wage backpay	(7,757,616)	4,038,226
Deposits received	5,727,010	3,369,493
Retentions	1,968,446	2,185,546
Other sundry creditors: District municipality	1,093,082	1,093,082
Accrued expense - DBSA accrude interest	598,615	629,118
Sundry creditors	4,950,924	4,950,924
	8,282,914	**18,942,766**

The fair value of trade and other payables approximate their carrying amount.

22. VAT payable

VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.

23. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

24. Consumer deposits

	2016 R	2015 R
Electricity	2,295,977	2,198,071

Notes to the Annual Financial Statements

	2016 R	2015 R

25. Revenue

Service charges	62,487,450	57,767,738
Rental of facilities and equipment	700,857	843,849
Licences and permits	3,206,426	2,655,121
Provision for bad debbts adjust	-	4,764,421
Property rates	154,859,936	119,499,372
Property rates - Penalties imposed and collection charges	7,343,344	6,596,240
Government grants & subsidies	71,131,777	102,976,662
Fines, Penalties and Forfeits	9,100,750	21,641,800
	308,830,540	**316,745,203**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	62,487,450	57,767,738
Rental of facilities and equipment	700,857	843,849
Licences and permits	3,206,426	2,655,121
Provision for bad debts adjust	-	4,764,421
	66,394,733	**66,031,129**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	154,859,936	119,499,372
Property rates - Penalties imposed and collection charges	7,343,344	6,596,240
Transfer revenue		
Government grants and subsidies	71,131,777	102,976,662
Fines, Penalties and Forfeits	9,100,750	21,641,800
	242,435,807	**250,714,074**

Notes to the Annual Financial Statements

	2016 R	2015 R

26. Property rates

Rates received

Residential	123,650,744	-
Commercial	34,447,749	-
Municipal	-	155,112,039
Small holdings and farms	32,177,796	-
Education and state	8,718,169	-
Private open space	2,037,546	-
Less: Income forgone rebates	(46,172,068)	(35,612,667)
Income received	154,859,936	119,499,372
Property rates - Penalties imposed and collection charges	7,343,344	6,596,240
	162,203,280	**126,095,612**

Valuations

Residential	15,521,867,500	10,364,971,510
Commercial	4,036,598,000	3,104,237,000
Education and State	1,094,391,000	2,336,606,000
Municipal	283,181,325	228,342,400
Agriculture	4,039,276,000	4,267,622,056
Private open space	255,773,000	556,551,700
State	287,625,000	17,365,000
	25,518,711,825	**20,875,695,666**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being Tuesday, June 30, 2015 (Thursday, July 31, 2014). Interest at 1% per annum except february which 10% (2015.1% is levied on rate outstanding one month after due date .

A basic rate of randage is applied to the valuations of all types of properties, the amount is 1.27 cents in the Rand (2015: 1.45cents).

Rebates

Agriculture - additional	82.50%	82.5%
Bona fide farmers	0%	0%
Residential (The first R100,000 is exempt in terms of the rates policy)	30%	30%
Pensioners (Qualifying on with income up to R9,000 on a sliding scale)	30%	30%
State	30%	30%

27. Service charges

Sale of electricity	56,672,222	52,718,366
Refuse removal	5,815,228	5,049,372
	62,487,450	**57,767,738**

The estimated distribution loss of R 38 245 236 (2015: R 32 152 873) is noted.

The contractor has finalised the project to identify losses and the recommendation is to undertake a full audit of all electrical installations within the area of supply. There is currently no funding available to begin this process.

The Municipality is applying its Credit Control and Debt Collection Policy and By-Laws in an effort to reduce losses, however the losses are of a technical nature and the Municipality is busy investigating strategies to further reduce the losses.

Notes to the Annual Financial Statements

	2016 R	2015 R

28. Government grants and subsidies

Operating grants		
Equitable share	44,316,000	40,228,505
Integrated National Electricity	1,715,285	418,489
Municipal systems improvement grant	930,000	1,315,392
Finance Management Grant	1,600,000	1,977,407
MAP Synergistic Partnership	6,548	3,700
Cleanest town award	755	168,000
Museum Grant	656,005	160,995
Library staffing costs	2,976,000	2,752,000
Expanded public works grant	1,466,429	971,571
Data cleansing grant	24,851	150,024
	53,691,873	48,146,083
Capital grants		
Municipal Infrustructure Grant	6,852,176	21,415,000
Masification	-	447,885
Cidara College- Kanya Village	719,795	655,576
Mandela capture site- phase 2	9,867,974	32,312,118
	17,439,945	54,830,579
	71,131,818	**102,976,662**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

	44,316,000	37,208,000

Municipal Systems Improvement Grant

.	-	381,391
Current year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(1,315,391)
	-	**-**

Finance Management Grant

Balance unspent at beginning of year	-	377,407
Current year receipts	1,600,000	1,600,000
Conditions met - transferred to revenue	(1,600,000)	(1,977,407)
	-	**-**

Municipal Infrustructure Grant

Current year receipts	13,249,000	21,415,000
Conditions met - transferred to revenue	(6,852,175)	(21,415,000)
	6,396,825	**-**

Notes to the Annual Financial Statements

	2016 R	2015 R

28. Government grants and subsidies (continued)

Mandela Capture Site - Phase 2

Balance unspent at beginning of year	19,926,867	12,537,985
Current-year receipts	-	39,701,000
Conditions met - transferred to revenue	(9,867,934)	(32,312,118)
	10,058,933	**19,926,867**

Library Mpophomeni - Internet Cyber Cadet 2010/2011

Library Mpophomeni - Internet Cyber Cadet 2011/2012

Balance unspent at beginning of year	-	-

MAP Synergistic Partnership

Balance unspent at beginning of year	354,489	358,189
Current year receipts	-	-
Conditions met - transferred to revenue	(6,548)	(3,700)
	347,941	**354,489**

Cleanest Town Award

Balance unspent at beginning of year	755	168,755
Current year receipts	-	-
Conditions met - transferred to revenue	(755)	(168,000)
	-	**755**

Notes to the Annual Financial Statements

	2016 R	2015 R

28. Government grants and subsidies (continued)

Provincial - Cedara College/Khanya Villlage Road

	2016 R	2015 R
Balance unspent at beginning of year	1,256,245	1,911,821
Current year receipts	-	-
Conditions met - transferred to revenue	(719,796)	(655,576)
	536,449	**1,256,245**

Integrated National Electricity Programme Grant

	2016 R	2015 R
Balance unspent at beginning of year	6,616	425,105
Current year receipts	4,000,000	-
Conditions met - transferred to revenue	(1,715,285)	(418,489)
	2,291,331	**6,616**

Museum Howick

	2016 R	2015 R
Balance unspent at beginning of year	490,005	500,000
Current year receipts	166,000	151,000
Conditions met - transferred to revenue	(166,000)	(160,995)
	490,005	**490,005**

Data Cleansing

	2016 R	2015 R
Balance unspent at beginning of year	24,851	174,875
Current year receipts	24,851	-
Conditions met - transferred to revenue	(24,851)	(150,024)
	24,851	**24,851**

Expanded Public Works Program

	2016 R	2015 R
Balance unspent at beginning of year	28,429	995,505
Current year receipts	1,438,000	1,000,000
Conditions met - transferred to revenue	(1,466,429)	(971,571)
Other	-	(995,505)
	-	**28,429**

	2016 R	2015 R

28. Government grants and subsidies (continued)

Libraries

Current year receipts	2,976,000	2,752,000
Conditions met - transferred to revenue	(2,976,000)	(2,752,000)
	-	-

Massification

Balance unspent at beginning of year	135,115	-
Current year receipts	-	583,000
Conditions met - transferred to revenue	-	(447,885)
	135,115	**135,115**

29. Other income

Shared services model	434,919	571,864
Building plan fees and drainage fees	1,532,940	2,037,085
Reconnection fee	155,190	587,811
Valuation fee	14,556	196,658
Hall hire	194,580	219,577
Burial fees	48,176	32,727
Advertising	255,666	198,679
Connection income	379,273	174,556
LGSETA receipts	35,899	89,178
Insurance claim received	-	148,059
Sundry income	357,086	307,874
Subdivision income	30,175	97,347
Rates certificate income	264,682	239,429
	3,703,142	**4,900,844**

	2016 R	2015 R

30. General expenses

Advertising	548,808	497,046
Auditor's remuneration	1,228,994	1,130,041
Bank Charges	720,124	683,716
Consulting and professional fees	6,370,465	7,783,665
Consumables	11,520	16,416
Contribution to landfill site provision	4,413,659	1,560,632
Veterinary department	799,671	783,901
Contribution to fire fighting services	398,410	263,186
Commission paid	1,410,826	2,556,672
Computer expenses	1,000,907	405,890
Community development and training	1,381,837	603,564
Discount allowed- traffic fines	23,000	-
Entertainment	8,000	126,842
Electricity	1,637,859	1,469,742
Flowers	1,965,041	-
Lease rentals on operating lease	5,253,685	2,926,172
Hygiene services	195,580	187,250
Insurance	442,042	460,484
IDP expenditure	276,902	684
IDP expenditure	2,473,276	2,103,653
IT expenses	374,285	343,639
Material and small tools	80,557	95,396
Magazines, books and periodicals	15,956	41,439
Medical expenses	5,970	9,027
Medical aid retired staff	684,286	651,787
Motor vehicle expenses	247,225	436,816
Postage and courier	1,104,516	1,125,574
Printing and stationery	415,952	543,773
Refuse	43,758	24,153
SARS penalties	1,379,230	-
Security (Guarding of municipal property)	13,288,960	8,116,376
Sewerage and waste disposal	48,889	38,428
Subscriptions and membership fees	389,761	1,669,461
Telephone and fax	1,464,306	1,376,590
Training	638,335	1,024,346
Transfer of RDP houses to beneficiaries	839,091	-
Uniforms	57,157	267,254
Valuation expenses	2,513,133	3,237,767
Water	452,194	442,767
	54,604,167	**43,004,149**

Notes to the Annual Financial Statements

	2016 R	2015 R

31. Grant operating expenditure

Cleanest town award	662	168,000
Finance management grant	1,753,010	2,229,407
Municipal systems improvement	901,413	1,091,826
Libary staffing costs	3,215,705	2,659,495
Data cleansing	-	4,974
Expanded public works programme	-	834,867
	5,870,790	**6,988,569**

32. Employee related costs

Basic	51,085,234	49,341,091
Bonus	3,884,004	3,695,393
Medical aid - company contributions	4,197,756	3,742,069
UIF	463,182	451,203
WCA	543,587	597,201
SDL	767,694	728,100
Leave pay provision charge	2,938,879	2,375,551
Post-employment benefits - Medical aid and long service	1,533,500	2,421,750
Defined contribution plans	10,605,564	9,913,599
Overtime payments	5,586,852	5,562,675
Car allowance	3,774,360	2,963,770
Housing benefits and allowances	609,865	247,805
Cellphone allowance	311,250	314,158
Standby allowance	113,588	113,340
Other # 6	1,021,204	929,627
	87,436,519	**83,397,332**

Remuneration of Municipal Manager

Annual remuneration	1,004,371	-
Cellphone allowance	19,605	-
Re-imbursive Travel	1,642	-
	1,025,618	**-**

Remuneration of Chief Financial Officer

Annual remuneration	790,639	423,072
Travel allowance	268,122	90,000
Acting allowance	-	196,206
Cell phone allowance	18,000	15,000
Re-imbursement	15,757	15,273
	1,092,518	**739,551**

Remuneration of General Manager Technical Services

Annual remuneration	812,180	774,733
Travel allowance	190,500	180,000
Cellphone Allowance	18,000	18,000
Re-imbursive traveling	117,246	85,091
	1,137,926	**1,057,824**

	2016 R	2015 R

32. Employee related costs (continued)

Remuneration of General Manager Community Services

	2016 R	2015 R
Annual remuneration	812,150	451,911
Travel allowance	190,530	105,017
Cell phone allowance	18,000	10,500
Re-imbursive travel	34,314	-
	1,054,994	**567,428**

Remuneration of General Manager Planning and Development

	2016 R	2015 R
Annual remuneration	818,500	780,705
Travel allowance	184,180	174,029
Acting allowance	118,339	-
Cellphone allowance	18,000	18,000
Re-imburstive travel	3,010	-
	1,142,029	**972,734**

GM Planning and Development also received an acting allowance in the current financial during, for the period in which he acted as the Municipal Manager.

Remuneration of General Manager Corporate Services

	2016 R	2015 R
Annual remuneration	812,150	774,705
Travel allowance	190,530	180,029
Acting allowance	-	34,720
Cellphone allowance	18,000	18,000
Re-imbursive Travelling	104,668	48,686
	1,125,348	**1,056,140**

All general managers received sumsung teblats of which is not included in the above packages

33. Remuneration of councillors

	2016 R	2015 R
Mayor's allowance	778,878	739,361
Deputy Mayor allowance	614,843	333,147
Executive Committee allowance	576,000	312,995
Speaker	613,307	332,754
Councillors allowance	465,492	4,401,136
	3,048,520	**6,119,393**

In-kind benefits:

The Mayor is employed on a full-time basis, and is provided with an office and secretarial support at the cost of the Council.

The Mayor has the use of Council owned vehicles for official duties.

The Mayor has two full-time bodyguards.

Councillor benefits:
All Councillors received a Samsung tablet in the current financial year. This benenfit is not included in the remuneration noted above.

Notes to the Annual Financial Statements

	2016 R	2015 R

34. Bad debts

	2016 R	2015 R
Debt impairment- traffic fines	4,048,502	10,876,667
Debt impairment- consumer debtors	8,515,899	-
Debts written off- consumer debtors	13,426,164	11,156,133
	25,990,565	**22,032,800**

35. Interest revenue

	2016 R	2015 R
Interest revenue		
Other financial assets	3,633,733	2,740,781
Interest charged on trade and other receivables	1,714,903	1,655,273
	5,348,636	**4,396,054**

36. Depreciation and amortisation

	2016 R	2015 R
Investment property	266,436	199,632
Intangible assets	12,337	110,412
Property, plant and equipment (Refer note 3)	42,785,596	41,514,501
	43,064,369	**41,824,545**

37. Finance costs

	2016 R	2015 R
Non-current borrowings	3,240,103	4,029,675
Finance leases	156,235	232,169
Interest on overdue accounts	45,575	8,791
	3,441,913	**4,270,635**

38. Auditors' remuneration

	2016 R	2015 R
Fees	1,228,994	1,130,041

39. Bulk purchases

	2016 R	2015 R
Electricity purchases	83,791,886	72,285,938

Notes to the Annual Financial Statements

	2016 R	2015 R

40. Cash generated from operations

(Deficit) surplus	(22,310,574)	26,547,789
Adjustments for:		
Depreciation and amortisation	42,785,596	41,824,544
Increase in contribution to bad debt provision	3,775,370	22,032,800
Movements in operating lease assets and accruals	(4,700,587)	(7,991)
Movements in retirement benefit assets and liabilities	165,000	2,413,000
Movements in provisions	5,351,616	2,046,516
Movement in tax receivable and payable	-	(705,397)
Transfer of RDP houses to beneficiaries	-	-
Changes in working capital:		
Other receivables	(294,455)	(277,650)
Consumer debtors	14,302,131	(15,697,135)
Other receivables from non-exchange transactions	(1,969,221)	(15,324,748)
Trade and other payables from exchange transactions	(10,659,852)	(5,356,935)
VAT receivable	1,095,034	2,512,657
Unspent conditional grants and receipts	(2,456,777)	4,392,339
	25,083,281	**64,399,789**

Notes to the Annual Financial Statements

	2016 R	2015 R

41. Commitments

Authorised capital expenditure

Approved and contracted for		
• mandela capture site	-	17,924,774
• Mpophomeni sportfield	-	784,246
• main road howick	-	1,409,450
• Cedara khanya village	-	778,247
• Mpophomeni sportsfield	-	2,263,992
	-	**23,160,709**

Approved but not yet contracted for		
• siphumelela	-	1,000,000
• Emandleni	500,000	1,000,000
• Lidgetton west sportfield	2,500,000	2,000,000
• Khayelisha roads	-	4,000,000
• Mpophomeni Sportsfield	-	1,500,000
• Mpophomeni Road Rehabilitation	12,000,000	9,749,000
• Lions river	-	1,000,000
• Other financial assets	6,866,000	7,000,000
	21,866,000	**27,249,000**

Total capital commitments		
Not yet contracted for and authorised by accounting officer	21,866,000	27,249,000

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating expenditure

The municipality has entered into contractors with suppliers for the provision of debt collection services, printing of statements, maintenance of the valuation roll, maintenance of the credit control system, cleaning services and security services. The total amount of these commitments are as follows.

Operating leases - as lessee (expense)

Operating leases consist of the following:

Operating lease payments represent rentals payable by the municipality for certain of its office properties (Taxi rank and White House) and equipment. Leases are negotiated for 3 years for the rental of the taxi rank and printers, and the lease periods for the White House is five years. No contingent rent is payable.

The municipality also leases land used for conservation purposes, the lease term for this land is 99 years. No escalation rate is applicable for the lease term.

Lease rentals for the taxi rank and printers escalate by 10% over the lease periods. Lease rentals for the White house are escalated at 8%.

42. Contingencies

As at the end of the financial year the municipality had the following litigation matters outstanding:

Cowcatchers are suing the municipality for attorneys fees resulting from the withdrawal of an application to the high court, for Cowcatchers to cease impounding animals within the municipal area. There could be future costs associated with the claim.

Mrs Burns is suing the municipality for a vehicle accident that was caused by driving into a pothole, the matter is still ongoing.

Informal dwellers have logged a claim for their eviction from Transnet property. The informal dwellers have requested that the municipality provide alternative accommodation. Value of this claim is undetermined.

Telkom has lodged s claim against the municipality for damages to Telkom telephone lines caused by a municipal tractor. the value of this claim could not be determined.

SAMWU on behalf of SJ Dlamini have lodged a claim for payment of an acting allowance. The contingency has been estimated by the municipality to be 250 000.

Skhumbuzo Ngubane vs uMngeni Municipality claim of arising from a failure to properly stage his concert.

Mafuludi Dlanimi and others have lodged a claim for their eviction from the Tumbleweed farm.

43. Contingent Assets

An employee in the Traffic Department had misappropriated funds to the value of R9,540. She was found guilty of the misconduct and after the disciplinary hearing a settlement was reached and the employee was to pay R265 per month for the next three years.

	2016 R	2015 R

44. Comparative figures

Certain comparative figures have been reclassified.

[Insert reasons for reclassification.]

The effects of the reclassification are as follows:

Statement of financial position - extract

Statement of financial performance - extract

45. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Financial instruments - 2016	Within 1 year	Between 1 - 5 years	More than 5 years	Total
Trade and other payables from exchange transactions	8,282,914	-	-	8,282,914
Finance leases	965,458	385,760	-	1,351,218
Annuity loans	3,386,736	12,453,939	13,781,784	29,622,459
	12,635,108	**12,839,699**	**13,781,784**	**39,256,591**

Financial instruments - 2015	Within 1 year	Between 1 - 5 years	More than 5 years	Total
Trade and other payables from exchange transactions	18,942,766	-	-	18,942,766
Finance leases	971,769	430,666	-	1,402,435
Annuity loans	3,279,327	11,687,943	17,334,075	32,301,345
	23,193,862	**12,118,609**	**17,334,075**	**52,646,546**

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. The municipality limits its exposure to interest rate fluctuations by only dealing with well-established institutions and opting where possible for fixed interest rates rather than variable rates.

Notes to the Annual Financial Statements

45. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluate credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

These financial asset balances represent the maximum exposure to credit risk.

Financial instrument		
Cash and cash equivalents	6,796,232	8,103,231
Investments	38,548,450	38,548,450
Consumer Debtors	88,209,233	31,258,293
	133,553,915	**77,909,974**

46. Going concern

At June 30, 2016, the municipality had an accumulated Surplus of R 620,426,633 and that the municipality's total assets exceed its liabilities by R 763,005,404.

It is also noted that municipality's unspent conditional grants liabilities are fully cash backed. The unspent grants liability amounts to R 17 831 032 and the municipality has investment to the value R 29 797 992 and cash and cash equivalents to the amount R 8 598 722.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are:

- Bi weekly meetings in the form of the Interim Finance Committee, to plan and approve only essential expenditure for the forthcoming weeks and to ensure that the unspent conditional grants are moving to a position of being cash backed.

- The Credit control and Valuation sub-committees meet monthly to tackle revenue enhancement issues by addressing the issue of outstanding debtors and valuation queries respectively. These committees have already achieved success by requesting all stakeholders involved in revenue enhancement to account monthly and provide direction on how to maximise revenue and reduce the outstanding debtors. A panel of attorneys have been appointed to assist with debt collection of debtors exceeding 90 days.

- Council and the Interim Finance committee is committed to turning the situation around and has frozen all vacant posts in order to curb expenditure, except critical posts or those funded by conditional grants.

- On the technical side, excess electricity losses have been identified and corrective action is being taken to remedy the situation by the Development of the Consumer Loss Analysis programme(CLA). This programme was specifically written to identify the electricity losses due to technical issues, theft of electricity, illegal connections, metered installations and correct the electricity billing cycle. The municipality has budgeted for the installation of smart meters in order to reduce electricity theft.

47. Events after the reporting date

The Municipality finalised the April and June VAT returns after 30 June 2014. The South African Revenue Services, requested additional information to validate the returns submitted on efiling which was only submitted to SARS after year end. The finalisation of the assessment resulted VAT payable in April of R 303 038 and VAT receivable of R 3 098 299 in June 2014. The municipality is still in the process of submitting the VAT return for February, this VAT payable has been accrude for in the accounting records of the Municipality for the amount R 705 397 . The April assessment also resulted in SARS levying penalties and interest that has been accrude for and disclosed as fruitless and wasteful expenditure for the amounts 142 631 and 32 091 respectively.

48. Unauthorised expenditure

Other Expenditure - Landfill site	4,413,659	1,560,632
Depreciation and amortisation	42,506,807	41,824,544
Construction of Mpophomeni Nodal Development Road P390	-	4,271,089
Mpophomeni ROads and Rehab: upgrading Roads in Mpophomeni	-	983,935
Debt impairment	22,802,708	20,049,984
	69,723,174	**68,690,184**

The expenditure above has been identified as unauthorised expenditure.

49. Fruitless and wasteful expenditure

Balance brought forward	825,024	825,024
Interest and penalty on late payment of VAT	-	1,319,266
Interest on late payment of Eskom	19,728	6,965
Interest on late payment of other suppliers	25,847	1,826
Amounts condoned by Council	(45,575)	(1,328,057)
	825,024	**825,024**

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Suppliers in service of the state
The municipality procured credit control software from Tevtal Technology cc. The member of this entity has disclosed that his spouse is in the service of the state.

The municipality procured Concrete T piece signs for street signs from Rosedale precast fencing. The member of this entity is in the employment of KZN: Department of Health.

The municipality procured entertainment for uMngeni prayer meeting event from Kamavuso Verse Entertainment. The member of this entity is in the employment of South African Broadcasting Corporation.

Notes to the Annual Financial Statements

Figures in Rand

51. Irregular expenditure

Balance brought forward	26,367,552	17,979,216
Sabinet online and on fire	-	152,339
Supplier declared-thins into	-	32,000
EPS contract	-	4,304,187
Khoskhu Trading CC	-	2,450
ELCO asphalters	-	3,770,965
Amounts condoned	-	11,250
City lodge and Adams booksellers	-	8,524
Airbrakes	-	106,621
	26,367,552	**26,367,552**

52. SCM deviations

In terms of regulation 36 of the Municipal Supply Chain Management Regulations, deviations from, and ratification of minor breaches of the procurement process have to be approved by the accounting officer and noted by the Council.

The following deviations were approved by the accounting officer and sent to Council for noting.

Section 36 deviations		
Deviations for the year	3,468,151	2,225,435

Notes to the Annual Financial Statements

53. Actual operating expenditure versus budgeted operating expenditure

Material differences between budget and actual amounts

Explanations for variances greater than 10% and more than R 1 million noted in the Statement of Comparison of Budget and Actual are as follows:

Commentary on Statement of Financial Performance

Revenue
55.1 Service charges- electricity

The variance is attributed to the electricity losses due to theft, through illegal connections. The municipality has determined that the estimated loss is R 38 million, refer to note 25. The municipality is currently trying to address the losses via the stop electricity theft project.

55.2 Other income

The municipality accounts for income forgone from electricity and refuse, as part of the other income. This is income is not actually received from the consumers, but is included for budgets purposes. This amount has resulted in a variance between the actual and budget amount

53.3 Interest received- investments
Mandela capture site grant was received in December 2013. These funds were invested in a fixed deposit account. This additional investment interest was not taken into account during the budgeting process.

55.5 Fines

The Municipality has recognised fines in terms of revised IGRAP 1. The budget was prepared based on the expected cash receipts form traffic fines. This has resulted in a difference between the actual and budgeted amount.

55.4 Property rates- penalties imposed

Penalties are charged on outstanding debt in line with municipal property rates and credit control policy. The municipality currently had higher than anticipated debtors on which penalties have been imposed.

Expenditure

55..6 Personnel
In addition to this, and actuarial gain of R 5 million for medical aid and long service valuations performed by the actuaries has been recognised as part of the personnel cost, decreasing the actual cost at the reporting year end.

55.7 Depreciation
Infrastructure depreciation was under budgeted for, which has resulted in a variance between budgeted and actual amounts.

55.8 Debt impairment
In the current year the municipality has accounted for traffic fines in terms of revised IGRAP 1. Debt impairment includes calculation of traffic fines considered impaired by the Municipality. This impairment was not budgeted for in the financial year. In addition to this, Council approved 13.4 million debt write off consumer accounts which has resulted in a variance between actual and budget.

55.9 General expenses
Actual general expenditure reported includes landfill site contribution which was not budgeted for in the 2015/16 budget. In addition, the Municipality incurred expenditure in excess of the budget for valuation roll services, which also contributes towards the variance between actual and budget.

53. Actual operating expenditure versus budgeted operating expenditure (continued)

55.10 Repairs and maintenance
In the previous financial year, the municipality appointed a service provider to assist with road maintenance (fixing pot holes). The municipality budgeted a similar amount for pot hole road maintenance which was not fully utilised in the current financial year. This has caused the variance between the budgeted and actual amount reported.

55.11 Grants and subsidies paid
The municipality has noted unspent grant of an operating nature. Reasons for understanding are as follows:

a) Financial management grant - A service provider has been appointed to assist with the completion of the fixed asset register, this exercise was not complete at the end of the financial year, this has contributed to variance in actual and budgeted amount.

b) Data cleansing grant - The final phase of the data cleansing project had not started at the end of the financial year, this has contributed to variance in actual and budgeted amount.

c) Municipal systems improvement grant - A service provider has been appointed to assist with the development and redesigning of the municipal website, this exercise was not complete at the end of the financial year, this has contributed to variance between the actual and budgeted amount.

55.12 Bulk purchases
The municipality embarked on "a stop electricity theft project" in July 2013. The project focused on solving root causes of electricity theft e.g. illegal connections, tempering of prepaid and conventional metre systems.The corrective interventions have had a direct impact on the purchasing levels of bulk electricity. The municipality also instructed the appointed service provider for electricity services to do hard disconnection for households with long over due accounts.This is also had an impact on the purchasing levels of bulk electricity.

54. Assets subject to restrictions

Assets that have been recognised, but which are subject to restrictions, the amount of restriction are as follows:

55. Budget differences

56. Additional Disclosure in terms of Municipal Finance Management Act

There were no amounts due from Councillors and staff at as the end of the year.

57. Prior period adjustment

Adjustments were made to correct the following errors in the prior years:

- Accumulated depreciation was incorrectly calculated in prior years. Adjustments had been made to the financial statements to correct these errors.
- Unclaimed monies previously written off have been claimed in the current year.
- Certain moveable assets were identified during physical verification that had previously been removed from the prior year fixed asset register, these have been reinstated.
- The Municipality paid retorspective salary adjustment to qualifying municipal employees in June 2014. This has necessitated the restatement of the statement of financial performance, financial position, cashflows and the statement of net assets.
- Museum incorrectly reported as a liability in the prior year was corrected.
- Correction of land not owned by the Municipality
- Investment property incorrectly reported as property plant and equipment.
- Unapproved roll over relating to the 2011/12 expenses were written off in the current year.
- The above issues have been adjusted in the financial statements for the current and prior years and the effect is as follows:

uMngeni Municipality
Appendix A

Schedule of external loans as at 30 June 2012

	Loan Number	Redeemable	Balance at Tuesday, June 30, 2015 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at Thursday, June 30, 2016 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Development Bank of South Africa								
	KN13855	31/03/2024	9,102,228	-	291,970	8,810,258	-	-
	102419	31/03/2027	15,854,283	-	414,511	15,439,772	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			24,956,511	**-**	**706,481**	**24,250,030**	**-**	**-**
Other loans								
ABSA Bank Limited	3022002978	30/06/2022	14,666,667	-	1,333,333	13,333,334	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			14,666,667	**-**	**1,333,333**	**13,333,334**	**-**	**-**
Lease liability								
ABSA Bank Limited			1,601,306	1,767,631	1,214,249	2,154,688	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			1,601,306	**1,767,631**	**1,214,249**	**2,154,688**	**-**	**-**
Total external loans			**41,224,484**	**1,767,631**	**3,254,063**	**39,738,052**	**-**	**-**

Appendix B

Analysis of property, plant and equipment as at 30 June 2010

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix C

Segmental analysis of property, plant and equipment as at 30 June 2010

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment deficit Rand	Closing Balance Rand	Carrying value Rand
Municipality	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun		Yes/ No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.